

Message Text

PAGE 01 STATE 100079

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FM SECSTATE WASHDC
TO AMEMBASSY DAMASCUS

C O N F I D E N T I A L STATE 200079

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: AMOCO'S ACTION IN SYRIA

REF: DAMASCUS 05068

1. IN ACCORDANCE WITH PARA 6-A OF REFTEL, DEPUTY ASSISTANT SECRETARY BOSWORTH CALLED AMOCO IN REGARD TO ITS DECISION NOT TO SIGN AN EXPLORATION AGREEMENT WITH SYRIA.

2. AMOCO REPRESENTATIVES GAVE THREE REASONS FOR THEIR DECISION: (1) THE IRS RULING WHICH THEY SAY WILL REDUCE PROFITABILITY; (2) AMOCO CLAIMS THAT IT IS UNABLE TO INTEREST OTHER PARTIES IN FINANCIAL PARTICIPATION, AGAIN BECAUSE OF THE IRS RULING; AND (3) AMOCO DOES NOT BELIEVE THAT THE LONG-TERM PROSPECTS IN SYRIA ARE SUFFICIENTLY PROMISING TO OVERCOME THE RISKS.

3. OUR IMPRESSION FROM THE BOSWORTH-AMOCO TALKS IS THAT IT WOULD DO NO GOOD TO HAVE ROBINSON MAKE A FURTHER APPROACH. THE IRS RULING HAS LEAD AMOCO TO RECONSIDER ITS PROPOSALS IN OTHER COUNTRIES. WE DON'T HAVE ANY PRESENT IM-
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PAGE 02 STATE 100079

PRESSION THAT SYRIA COULD SWEETEN AND SWING THE DEAL. AMOCO MADE IT CLEAR THAT ITS DECISION WAS BASED ON ITS EVALUATION OF THE ECONOMICS OF PETROLEUM DEVELOPMENTS IN

SYRIA.

4. THE RECENT IRS RULING (MAY 7, 1976, REVENUE RULING 76-215) DOES AFFECT A COMPANY'S ECONOMIC STANDING UNDER PRODUCTION SHARING CONTRACTS. UNDER THE OLD RULING THE HOST COUNTRY'S SHARE OF PRODUCT UNDER THESE CONTRACTS HAS BEEN CONSIDERED A TAX ON THE US FIRM, AND AS SUCH WAS ALLOWED AS A CREDIT AGAINST THE COMPANY'S US TAXES. IN THE FUTURE, AS PER THE REVISED RULING, THE HOST COUNTRY'S SHARE OF PRODUCTION WILL BE CONSIDERED A ROYALTY, AND AS SUCH AN ADJUSTMENT TO INCOME. BECAUSE OF THE TAX RATE ON CORPORATIONS THIS RULING WILL EFFECTIVELY DOUBLE THE PRODUCING COMPANY'S TAX BURDEN. KISSINGER

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